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DECEMBER 1987 MONTHLY REPORT

# Surveys of Consumers

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## *SMALL REBOUND IN CONFIDENCE*

- The Index of Consumer Sentiment rose to 86.8 in the December 1987 survey from the November reading of 83.1. This small rebound in consumer confidence, while far from reversing the recent losses, does indicate that the sudden plunge in stock prices has not triggered a free-fall in consumer confidence. The heightened sense of uncertainty expressed by consumers in the days and weeks following Black Monday has lessened, as the worst fears have not been confirmed by subsequent developments. Although the initial reactions of fear and uncertainty have dissipated, providing the basis for the small rebound in confidence, grave concerns about the outlook for the domestic economy still dominate consumer evaluations. Nonetheless, the December 1987 survey represents the first encouraging news since October 19th. Importantly, buying attitudes have improved in response to increased discounting, and personal finances have remained at favorable levels. These data indicate that consumers will remain cautious in their spending plans, but that a sharp retrenchment is not now underway.

- Prospects for the national economy improved in the December 1987 survey, but the improvement was insufficient to reverse the overall unfavorable balance of opinion. Among all families, 43 percent expected bad times financially in the economy during the year ahead, down from 45 percent in November, but substantially above the 29 percent recorded in September. Prospects for the economy over the longer term also posted a small improvement in the December survey, but also remained negative: bad rather than good times financially in the country as a whole during the next five years were expected by the margin of 44 to 33 percent.

- When asked about the likelihood that the plunge in stock prices would lead to a recession, a majority of respondents in both the November and December surveys thought that it would. And only a small and insignificant decline in consumers' judgments of the likelihood of a recession was recorded in December. Overall, 65 percent of all families in the December survey thought that a recession was "somewhat" or "very" likely, just below the 68 percent recorded in November, while the proportion of consumers that thought a recession was "not likely" rose to 32 from 28 percent. These judgments have had a strong impact on consumer confidence. Among families that judged a recession "very likely," the Index of Consumer Sentiment averaged just 68.2, compared with an average of 102.7 among families that thought a recession was unlikely to result from the stock market crash.

- Favorable attitudes toward buying conditions for large households goods were held by 69 percent of all families in the December 1987 survey, up from 66 percent one month earlier. This one month improvement was due to more frequent references to the availability of low or discounted prices—mentioned by 37 percent in December, up from 30 percent in November. This improvement still leaves these buying attitudes less favorable than three months or one year earlier, when 75 percent held favorable views.

- Favorable attitudes toward buying conditions for vehicles were held by 64 percent of all families in the December 1987 survey, up from 57 percent one month earlier, and equal to the year earlier reading. Although the proportion holding favorable attitudes is identical to a year ago, the reasons given by consumers for these favorable attitudes have changed substantially. During the past year the proportion of families that favorably mentioned interest rates fell to 23 from 45 percent, while references to price discounts rose to 31 from 23 percent. An additional 14 percent of families in the December survey cited the advantage of buying in advance of rising prices—mainly for imported vehicles.

- Home buying attitudes improved substantially in the December 1987 survey, with the proportion holding favorable attitudes toward home buying conditions rising to 68 percent in December from 58 percent in November. Despite the rebound, the December 1987 reading was lower than the figures recorded three months (71 percent) or one year earlier (80 percent). The December rebound was due to more favorable views of market prices (mentioned by 21 percent, up from 16 percent in November), and more favorable views of mortgage interest rates (mentioned by 52 percent, up from 43 percent in November).

- Consumers' evaluations of their personal financial situation remained at favorable levels in the December 1987 survey. Among all families, 43 percent reported being better off financially in December, largely unchanged during the past three months. Reports of increases in family incomes remained as frequent in December as in the prior month (33 percent). Consumers view their financial prospects for the year ahead in favorable terms, although they were slightly less optimistic at year end. Among all families, 32 percent expected to be better off financially during the year ahead, down from 35 percent three months earlier, and 36 percent one year earlier.

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The December 1987 survey was conducted between November 25 and December 22, 1987 and included 500 completed interviews. The usual booklet of tables and charts for the December 1987 survey will be sent shortly.

*TABLE 1*

*INDEX OF CONSUMER SENTIMENT AND ITS COMPONENTS*

| Index Measures (Table Number) | Dec 1986 | Sept 1987 | Oct 1987 | Nov 1987 | Dec 1987 |
|---|---|---|---|---|---|
| Index of Consumer Sentiment(1) | | | | | |
| All Families(1) | 89.1 | 93.6 | 89.3 | 83.1 | 86.8 |
| Families with Incomes over $30,000(1) | 98.4 | 100.6 | 99.9 | 87.7 | 94.5 |
| Current Index(3) | 105.8 | 108.3 | 103.1 | 99.3 | 102.7 |
| Expected Index(3) | 78.3 | 84.2 | 80.4 | 72.7 | 76.7 |
| Personal Finances | | | | | |
| Current(3) | 116 | 119 | 118 | 115 | 119 |
| Expected(3) | 127 | 124 | 128 | 118 | 120 |
| Business Conditions | | | | | |
| One year ahead(3) | 104 | 122 | 105 | 93 | 98 |
| Five years ahead(3) | 83 | 92 | 90 | 80 | 89 |
| Buying Conditions | | | | | |
| Household Durables(3) | 158 | 162 | 149 | 142 | 147 |
| Homes(23) | 164 | 146 | 144 | 120 | 139 |
| Vehicles(25) | 135 | 141 | 127 | 122 | 134 |
| Cases | 653 | 650 | 500 | 501 | 500 |

*TABLE 2*

*CONSUMER SENTIMENT MEASURES*

| Question | Dec 1986 | Sept 1987 | Oct 1987 | Nov 1987 | Dec 1987 |
|---|---|---|---|---|---|
| Current Personal Finances(4) | | | | | |
| Better | 43% | 42% | 43% | 42% | 43% |
| Worse | 27% | 23% | 25% | 27% | 24% |
| Expected Personal Finances(6) | | | | | |
| Better | 36% | 35% | 37% | 33% | 32% |
| Worse | 9% | 11% | 9% | 15% | 12% |
| Current Business Conditions(12) | | | | | |
| Better | 40% | 49% | 49% | 33% | 36% |
| Worse | 45% | 34% | 35% | 50% | 46% |
| One Year Business Outlook(15) | | | | | |
| Good Times | 45% | 51% | 43% | 38% | 41% |
| Bad Times | 41% | 29% | 38% | 45% | 43% |
| Five Year Business Outlook(16) | | | | | |
| Good Times | 33% | 37% | 36% | 31% | 33% |
| Bad Times | 50% | 45% | 46% | 51% | 44% |
| Unemployment Expectations(17) | | | | | |
| Lower | 11% | 13% | 17% | 10% | 12% |
| Higher | 42% | 29% | 29% | 36% | 34% |
| Interest Rate Expectations(18) | | | | | |
| Higher | 41% | 66% | 67% | 49% | 52% |
| Lower | 20% | 7% | 11% | 22% | 20% |
| Household Durables(21) | | | | | |
| Good Time to Buy | 75% | 75% | 69% | 66% | 69% |
| Bad Time to Buy | 17% | 13% | 20% | 24% | 22% |
| Homes(23) | | | | | |
| Good Time to Buy | 80% | 71% | 70% | 58% | 68% |
| Bad Time to Buy | 16% | 25% | 26% | 38% | 29% |
| Vehicles(25) | | | | | |
| Good Time to Buy | 64% | 66% | 58% | 57% | 64% |
| Bad Time to Buy | 29% | 25% | 31% | 35% | 30% |
| Cases | 653 | 650 | 500 | 501 | 500 |

*TABLE 3*

*LIKELIHOOD OF RECESSION AS A RESULT OF STOCK MARKET DEVELOPMENTS*

| | Nov. 1987 | Dec. 1987 |
|---|---|---|
| Do you think sharp declines in stock market prices are likely to lead to a recession?[a] | | |
| Very likely | 17% | 16% |
| Somewhat likely | 51 | 49 |
| Not very likely | 20 | 25 |
| Not at all likely | 8 | 7 |
| Don't know, NA | 4 | 3 |
| Total | 100% | 100% |
| Cases | 501 | 500 |

The question asked was:

[a]"Some people think that the sharp declines in stock market prices will lead to an economy-wide recession, while others do not. Do you think sharp declines in stock market prices are very likely to lead to a recession, somewhat likely, not very likely, or not at all likely to lead to a recession?"